

ANALYSIS OF AMENDED BILL

Author: Arambula Analyst: Nicole Kwon Bill Number: AB 485
Related Bills: See Legislative History Telephone: 845-7800 Amended Date: June 29, 2006
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Economic Incentive Areas

SUMMARY

This bill would make various changes and reforms to existing law regarding Enterprise Zones, Manufacturing Enhancement Areas, Targeted Tax Areas, and Local Agency Military Base Recovery Areas.

This analysis addresses only those provisions of the bill affecting the Franchise Tax Board (FTB).

SUMMARY OF AMENDMENTS

The June 29, 2006, amendments struck the previous provisions relating to a study on the creation of a Master Business License Center and would make revisions to the law applicable to the following Economic Development Areas (EDAs):

- A. Designation of Enterprise Zones.
- B. Designation of Targeted Employment Areas.
- C. Providing Information to the Legislature.

Each item is discussed separately below.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to enact meaningful reforms to the EDA programs to ensure that the state maximizes its investment in the programs and targets benefits to economically challenged areas and individuals.

EFFECTIVE/OPERATIVE DATE

If enacted in 2006, this bill would be effective January 1, 2007, and operative as of that date.

POSITION

Pending

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u> X </u> PENDING

Department Director

Selvi Stanislaus

Date

8/23/06

Summary of Suggested Amendments

Amendment 1 is provided to suggest appropriation language to fund the department's costs.

A. Designation of Enterprise Zones

ANALYSIS

STATE LAW

Under the Government Code, state law provides for several types of EDAs: Enterprise Zones (EZs), Manufacturing Enhancement Areas (MEAs), Targeted Tax Areas (TTAs), and Local Agency Military Base Recovery Areas (LAMBRAs).

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Department of Housing and Community Development (DHCD) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years.

Currently, all of the 42 authorized EZs have been designated.

THIS BILL

This bill would do the following:

- Allow changes to the definition of an EZ's "eligible area" by allowing for noncontiguous boundaries.
- Define "geographically targeted economic development area (G-TEDA)" to mean areas designated as EZs, MEAs, TTAs, and LAMBRAs.

IMPLEMENTATION CONSIDERATIONS

This bill would raise the following implementation considerations.

This bill allows DHCD, based on a review and determination of completed applications, to issue a letter of preliminary designation of G-TEDA. The designation of the G-TEDA is deemed to be final upon the signing of the memorandum of understanding by DHCD and the government entities that represent the G-TEDA. It is unclear when the tax incentives are available for taxpayers to use. Therefore, the department would need to assume that the tax incentives generally available are available for taxpayers to use following the preliminary designation of G-TEDA. If this assumption is inconsistent with the author's intent, the author's office may want to clarify the language.

The term "G-TEDA coordinator" is undefined in this bill. It is assumed that "G-TEDA coordinator" is the person who administers all the rules and regulations of G-TEDA. If this assumption is inconsistent with the author's intent, the author's office may want to define this term or specify by cross reference the section of the law if it is already defined.

TECHNICAL CONSIDERATION

On page 15, line 14, the word "of" should be inserted between "memorandum" and "understanding".

LEGISLATIVE HISTORY

SB 1008 (Ducheny/Machado, 2005/2006) is identical to this bill except SB 1008 included provisions related to the hiring credit in EZs. SB 1008 is currently in the Assembly Jobs, Economic Development and the Economy Committee.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This portion of the bill is not anticipated to impact significantly the amount of revenue.

Revenue Discussion

This bill would allow changes to the definition of an EZ's "eligible area" by allowing for noncontiguous boundaries. This estimate assumes that, on average, changes in the shape of EZs will not affect the amount of credit claimed in each EZ. Depending on the specific changes made to EZ boundaries, this bill could result in additional changes to the revenue impact of EZs.

B. Designation of Targeted Employment Areas (TEAs)

STATE LAW

Under the Government Code, a TEA is designed to encourage businesses in an EZ to hire eligible residents of certain geographic areas within a city, county, or city and county. A TEA may be, but is not required to be, the same as all or part of an EZ. EZs may draw TEAs to contain census tracts where 51% or more of the individuals are low or moderate income. TEAs are drawn using census data at the time of the EZ's formation. A resident of a TEA can be certified as a qualified employee for purposes of the EZ hiring credit. See discussion below.

BACKGROUND

Currently, census tracts are used to determine TEAs. Census tracts usually contain between 2,500 and 8,000 people, whereas census block groups, the smallest unit of analysis where the Census Bureau measures household income, are statistical subdivisions of census tracts, including between 600 and 3,000 people.

THIS BILL

This bill requires all EZs to redraw TEAs within 180 days of new census data becoming available.

This bill revises the criteria for a TEA in an EZ from 51% of residents in a census tract with low or moderate income levels to 61% of residents in a census block group with low or moderate income levels for EZs designated after January 1, 2007.

IMPLEMENTATION CONSIDERATIONS

This bill would raise the following implementation consideration.

The author's office may want to clarify whether TEAs will continue to apply only to EZs or to all G-TEDA. If the author's intention is to allow TEAs to apply to all G-TEDA, a definition for TEA should be added under Government Code section 7072.5.

FISCAL IMPACT

This portion of the bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This portion of the bill is not anticipated to impact significantly the amount of revenue.

C. Providing Information to the Legislature

STATE LAW

Under the Government Code, existing state law requires FTB to provide information annually to the Legislature regarding the number of businesses using the EZ tax incentives, types of EZ tax incentives being used, and the EZs in which the businesses are claiming the tax incentives.

THIS BILL

This bill would expand the information FTB is required annually to make available to the Legislature to include LAMBRAs, MEAs, and TTAs.

This bill would add the length of employment of vouchered employees to the information FTB is required to annually make available to the Legislature.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

SB 1008 (Ducheny/Machado, 2005/2006) is identical to this bill except SB 1008 included provisions related to the hiring credit in EZs. SB 1008 is currently in the Assembly Jobs, Economic Development and the Economy Committee.

FISCAL IMPACT

This bill would require the development of an additional form to be remitted with the return, also impacting departmental printing, processing and storage costs. In addition, implementing this bill would require purchase of new equipment, require system and application reprogramming, and testing. The department estimates first year implementation costs of \$690,619 with ongoing operating costs of \$493,063 annually to administer the provisions of this bill. Amendment 1 is provided to suggest appropriation language to fund the department's costs.

ECONOMIC IMPACT

This portion of the bill is not anticipated to impact significantly the amount of revenue.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 485
As Amended June 29, 2006

AMENDMENT 1

On page 26, after line 15, insert:

SEC. 15. The sum of six hundred ninety thousand six hundred nineteen dollars (\$690,619) is hereby appropriated to the Franchise Tax Board in augmentation of its support budget (item of the Governor Budget- Chap __, Statutes of____).